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MEMORANDUM FOR THE RECORD

SUBJECT: Long Term Outlook for Third World Oil Exports

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The attached was prepared by [redacted]  
for the Camp David Energy Meeting at the request of the  
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Mr. James Reddington on 13 December 1974.

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Office of Economic Research

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Executive SummaryLong-Term Outlook for Third World Oil Exports

As a group the non-OPEC countries of the Third World probably will still be net importers of oil in the early 1980s. Their production is expected to grow from 3.1 million b/d currently to 8.3 million b/d by the early 1980s. Their consumption is expected to grow from 6.1 million b/d to 9 million b/d during the same period, leaving a net import requirement of 700,000 b/d for the Third World as a whole. Chinese output probably will rise over the same period to 5 million b/d, of which an estimated 1.25 million b/d will be exported.

Although the combined Third World-Chinese surplus is expected to amount to only 500,000 b/d, several individual countries will become large net exporters by that time. They include Mexico, Peru, Bolivia, Malaysia, Brunei, and Angola/Cabinda, as well as China and several Arab countries not now members of OPEC. If all the exports of these countries could be captured by OECD consumers, about one-fourth of the anticipated import needs of OECD nations could be met from non-OPEC sources.

Long-Term Outlook for Third World Oil Exports

As a group, the non-OPEC countries of the Third World probably will still be importing a little oil in the early 1980s. Oil consumption as well as oil production will increase substantially in these countries over the next decade. We estimate that by the early 1980s the Third World nations will be producing 8.3 million b/d of oil and consuming 9.0 million b/d. Over the same period, Chinese production is expected to rise to 5 million b/d, of which an estimated 1.25 million b/d will be exported.

The projected net surplus of Third World countries and China of 500,000 b/d in the early 1980s equals only 2% of OECD nations' anticipated net import needs of 23 million b/d. Individual countries will become large net exporters, however, and the bulk of this oil may well go to OECD countries. Third World supplies could meet 11% of the projected needs of OECD countries in the early 1980s, if these countries had access to the expected surplus output of Mexico, Peru, Bolivia, Malaysia, Brunei, and Angola/Cabinda. Exports of another 1.2 million b/d, equal to 5% of projected OECD import needs, are forecast for Arab countries that are not presently members of OPEC -- chiefly Oman, Egypt, and Syria. In the aggregate, estimated surplus supplies in

individual Third World states plus China will come to 5.2 million b/d, or almost one-fourth of anticipated OECD imports from non-OECD nations.

### Production

Within the next decade, the crude oil output of Third World countries is expected to expand by roughly 10% annually from the present level of 3.1 million b/d. A small number of countries will account for most of the increase. Mexico's output will increase fourfold, to an estimated 2 million b/d. Brazil, though remaining a net importer, probably will hike production from about 200,000 b/d to 900,000 b/d. Production in Egypt and in Malaysia is expected to reach the range of 700,000-750,000 b/d. Chinese production should rise to about 5 million b/d.

### Consumption

We project that oil consumption in Third World states will grow at an average rate of 4½% over the next decade, compared with the 7½% rate of the last five years. This projection reflects our belief that economic growth in the LDCs will be less rapid in coming years than in the recent past and that high prices will encourage conservation in the use of oil and a small shift to other fuels. Chinese consumption is projected to grow at an average rate of 15% through the early 1980s, compared with 18% over the last decade.

We expect energy consumption in Third World countries to grow about 60% faster, relative to the expansion of GNP, than consumption in developed countries. Moreover, only a few developing countries have sufficient natural gas, coal, or hydroelectric resources to reduce their dependence on oil. In many countries, oil will become increasingly important as modernization makes the traditional fuels of subsistence economies impractical.

Growth rates for oil consumption will differ greatly among individual nations. Important producing countries such as Mexico and Egypt obviously will not be under the same constraints as certain nations that will have to import a large part of their supplies -- for example, India, Taiwan, and the Philippines. Other nations, including Brazil, South Africa, and South Korea, probably will have large enough export earnings to pay for increasing oil supplies.

#### Exports

For the Third World countries as a group, the rapid growth expected in oil output promises only to reduce net imports from the present 3 million b/d to perhaps 800,000 b/d by the early 1980s. Nine or ten countries will account for all Third World exports of oil. Most important will be Mexico, with projected exports of 1.1 million b/d. Exports from Egypt, Malaysia, and Oman probably will be in the 500,000-600,000 b/d range. The other principal exporters probably will be Brunei, Syria, Bolivia, Peru, and Angola/Cabinda. We judge that China will be able to export about 1.2 million b/d

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by the early 1980s, compared with a mere 40,000 b/d in 1973 and 110,000 in 1974. Third World countries and China will be able to satisfy a substantial part of the import needs of OECD nations only if the surpluses of individual producers are channeled to these nations, leaving the needs of other LDCs to be satisfied by OPEC members.

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Latin America

Most of the most important Latin American countries will be approaching self-sufficiency by 1980-85, and Mexico, Peru, and Bolivia will be important exporters. Exports from Trinidad-Tobago will probably decline.

Mexico will be one of the Western Hemisphere's major exporters by 1980-85. The recent discoveries in Tabasco and Chiapas apparently have added some 14 billion barrels to Mexican reserves. More oil is likely to be found in this area. Other important discoveries have been reported in Baja California, Tamalipas, Puebla, and Chihuahua. From the technical point of view, Mexico should be capable of producing almost 3 million b/d of which 2.1 million b/d could be exported.

We doubt, however, that Mexico will produce at such rates. Whether or not Mexico becomes a member of OPEC, it will probably follow the OPEC line in most matters. Moreover, there is a strong and politically powerful conservationist sentiment within the country. Mexico, proud of its rising industrial exports, has no desire to become another Venezuela. Oil exports -- mostly in the form of refined products -- will be based on the country's foreign exchange needs. We

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Trinidad-Tobago, South America's only other major exporter, may lose this status during the next decade. Recent government actions directed at foreign oil companies come at a time when most of the nation's producing fields are being exhausted. If government policy is changed, promising offshore areas might be developed in time for the country to maintain its export position.

Argentina, which now produces about 80% of its oil requirements, will become nearly self-sufficient given domestic peace and a reasonably aggressive exploration policy. Although prospects for additional large finds in older producing areas such as Mendoza, Neuquen, and onshore Comodoro Rivadavia are not good, Jujuy and Tierra del Fuego show promise. The continental shelf off Comodoro Rivadavia could become an important producing area by the mid to late 1980s. The scarcity of offshore drilling equipment will hamper rapid exploration and development of this area. Oil consumption will continue to expand but at a reduced rate as hydroelectric and nuclear plants now under construction come on stream and as rapidly increasing natural gas output allows substitution.

Brazil, as a result of the spectacular oil discovery near Campos, is now predicting production levels of 1 million b/d by 1980. This would supply some 75% of projected Brazilian requirements. While we believe that the potential of the Campos discovery has been exaggerated, other areas, such as the Amazon basin near the area of Peruvian discoveries, will be

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increasingly explored and might add significantly to Brazilian production by the mid-1980s. Completion of the gas pipeline from Bolivia in the next few years and a steady growth of hydroelectric projects well into the mid-1980s will help reduce dependence on imported oil.

The outlook is not so bright for other consuming countries in Latin America. Prospects are perhaps best in Colombia, Chile, and Guatemala. However, given the realities of domestic politics and international shortages of rigs and crews, we do not believe that any of these countries with the exception of Colombia will be self-sufficient by the end of the decade.

#### Africa

During the next ten years Egypt probably will become a net exporter, Angola-Cabinda, Tunisia, and the Congo will increase their exports. South Africa will continue attempts to slow its increasing dependence on imported oil through more extensive use of coal. The other nations' dependence on oil -- most of which will be obtained from OPEC countries -- will increase.

The Egyptian petroleum supply situation should improve substantially over the next several years. Past exploration efforts have recently paid off. The Ramadan and July oil discoveries are already being developed and are expected to more than offset output declines elsewhere. A massive new exploration promotion effort could yield other discoveries over the next several years, especially in previously

unexplored areas of the Gulf of Suez, the Nile Delta, and the

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Western Desert bordering the Mediterranean. On the negative side, Egyptian domestic consumption, which has been held down artificially for almost a decade, is expected to soar, especially if an ambitious new economic development plan is fully implemented. Nonetheless, Egypt should become at least a modest net exporter in a year or so, even if the Israeli occupied Sinai-fields are not returned.

Political factors, including Egypt's membership in OAPEC could complicate this scenario. The OAPEC charter binds the member states to follow OPEC pricing and other policies. Moreover, Egypt would be naturally reluctant to act against its OPEC benefactors such as Saudi Arabia as dependence on Arab subsidies lessens and membership in OPEC becomes more diverse, Egyptian self interest will probably win out over Arab or producer solidarity. In these circumstances, Cairo can be expected to produce and export to the limit.

When Angola and Cabinda achieve their independence -- either as one state or as two -- they will probably join OPEC. Although their production, which we expect to expand to 250,000 b/d by 1980-85 on the basis of continued development and exploration, is listed in our tables as Third World production, it probably should go in the OPEC column. Expansion of production -- be it within or without OPEC -- may be seriously delayed by civil strife and the Cabinda seperatist movement.

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Recent offshore discoveries have provided a new impetus to Tunisia's petroleum industry. Offshore oil production should at least offset the expected decline in output from older onshore fields during the rest of the decade. Additional discoveries in the Gulf of Gabes area should assure some growth in output through 1980. The government encourages Western oil companies to explore and develop its resources, and these companies are attracted by the good quality of Tunisian crude and its proximity to European markets.

The development of two new offshore oilfields in the Congo could more than double oil production by 1977, and growth may be sustained through 1980. Exploration of the giant Emeraude offshore pool will be complicated by several technical problems. However, the Loango pool, which is smaller, should be much easier to produce.

Other attractive oil prospects are believed to exist in Sub-Saharan Africa. This area is one of the last relatively unexplored continental basins in the world.

South Africa is the region's major consumer, using about 35% of all the oil imported into non-OPEC Africa. Iran provides about one-third of its imports. Because of Arab backing for Black African opposition to South Africa's racial policies, Pretoria has been forced to obtain the rest of its oil through a complicated evasion system. Although oil is vital for highway transportation, bunkering, and

the chemical industry, South Africa's large coal deposits provide 75-80% of its energy needs.

The other consuming countries are unlikely to develop major new energy sources. We believe, however, that many will be able to obtain oil under special arrangements from the OPEC countries. African and Arab producing countries have been under increasing pressure from the African Oil importers to help offset increased energy costs. The Africans feel they are due special favors from the Arabs because of their political support during the last Arab-Israeli war. Nigeria a member of the OAS recently has reiterated its willingness to provide some of the importers crude below market prices.

The main non-OPEC Asiatic exporters during the next ten years will be Communist China, Malaysia, and Brunei, and a few Arab states. The latter, however, will probably closely follow the OPEC line. Although the long-term prospects of Thailand, South Vietnam, Cambodia, and Burma are promising, it is unlikely that they will become substantial producers during the period under study. While recent oil and gas discoveries indicate improved prospects for such major consumers as India, Pakistan, and Taiwan, these countries will remain large net importers.

China's crude oil production over the next ten years should continue to show rapid, although possibly slowing (after 1980) growth. Further development of existing onshore fields should enable the Chinese to produce 4 million b/d by 1980, with exports of 1 million b/d. By the mid-1980s, output from offshore fields should begin to play an important role in China's production. Projecting output on the basis of a 10 percent average annual rate of increase, 1980-1985, gives a figure just under 6.5 million b/d for 1985.

Such production rates imply considerable imports of petroleum equipment and the continued need (and desire) on the part of the Chinese to rely on petroleum exports to sustain an accelerated industrialization program. Domestic political resistance to current levels of imports of plant and equipment has been manifest over the past two years; whether those objecting to current practices could be persuaded to accept the even higher levels implied by projected petroleum production and exports for the 1980s remains to be seen.

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The Chinese would be reluctant to submit to the additional political (and perhaps economic) constraints imposed by membership in OPEC. It seems likely that they would remain outside OPEC unless OPEC membership became a vital aspect of their overall foreign policy. This would depend on the course of their relations with the Soviets, the US, and the success of their efforts to establish China as a leader of Third World countries.

Malaysia's supply and demand currently are in balance. Recent oil and gas strikes off Sabah in addition to similar offshore finds off Sarawak and in the South China Sea perhaps justify present government plans for crude output of 700,000 b/d and 1 to 3 million cubic feet per day of gas by the early 1980s. The recent formulation of a national petroleum company PETRONAS, fashioned along the lines of PERTAMINA, is indicative of an aggressive oil policy. It is probable that Malaysia will attempt to join OPEC in mid to late 1975 when exports should be on the order of 150-200,000 b/d.

Brunei is expected to expand production of oil and gas largely as a result of offshore developments along the northwest coast of Borneo and some from more extensive exploitation of onshore pools. Crude production could exceed 300,000 b/d and 750 million cubic feet daily in the early 1980s.

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India currently produces about a third of its oil requirements and obtains the remainder from OPEC countries -- some under concessional agreements. Recent discoveries in the Arabian Gulf offshore Bombay seem promising. Further exploration and development will be complicated by New Delhi's mistrust of foreign oil companies, the world-wide shortage of rigs and crews, and problems within the state oil company. The nation's dependence on foreign oil is not likely to decline by the mid-1980s.

Pakistan is expected to produce only about 15% of its oil consumption in the next few years. However, it currently is one of the leading gas producers on the Asian sub-continent and possesses additional, largely undeveloped gas reserves. Gas already is the country's most important commercial fuel and is expected to continue at this rate. Current exploration efforts could improve the outlook for oil. The government has encouraged western firm's exploration efforts. A concessionary financing agreement has been arranged with Iran for about 60% of current crude requirements. Iran and other Middle East oil producers also have been generous in supplying loans on soft terms.

There is little hope that other large oil consumers in Asia such as South Korea, the Philippines, or Taiwan will be able to produce domestically a significant share of their energy demand. Although currently there is exploration activity going on, only Taiwan has positive results. An unevaluated gas find has been found offshore which may produce

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some oil. Taiwan and South Korea are hoping to use coal and nuclear power to reduce some of their dependence on oil and gas. The other net importers in the area have little prospect for becoming even self-sufficient in the time period covered.

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## Projected Change in Oil Supply Position of Non-OPEC LDCs and China

Thousand B/D

	1973			Early 1980s		
	Consumption	Production	Exports(+) Imports(-)	Consumption	Production	Exports(+) Imports(-)
<b>Latin America</b>	2,830	1,565	-1,265	4,300	4,520	+220
Argentina	530	430	-100	650	600	-50
Brazil	720	170	-550	1,300	900	-400
Bolivia	15	50	+35	30	200	+170
Mexico	560	465	-95	900	2,000	+1,100
Chile	100	30	-70	140	50	-90
Colombia	120	185	+65	200	200	0
Peru	110	70	-40	200	400	+200
Trinidad-Tobago	60	165	+105	120	120	0
Others	615	0	-615	760	50	-710
<b>Africa</b>	830	445	-385	1,215	1,270	+55
Egypt	150	165	+15	250	750	+500
Angola-Cabinda	25	155	+130	50	250	+200
South Africa	310	0	-310	430	0	-430
Congo-Brazzaville	10	40	+30	15	100	+85
Tunisia	35	85	+50	50	120	+70
Other	300	0	-300	420	50	-370
<b>Asia (NE &amp; FE)</b>	2,425	1,110	-1,315	3,505	2,470	-1,035
Israel	140	100	-40	270	0	-270
Turkey	200	65	-135	290	100	-190
Syria	50	100	+50	130	250	+150
Bahrain	35	70	+35	50	70	+20
Oman	0	295	+295	5	600	+595
India	480	150	-330	670	300	-370
Malaysia	100	100	+0	140	700	+560
South Korea	240	0	-240	335	0	-335
Taiwan	165	0	-165	230	0	-230
Philippines	180	0	-180	250	0	-250
Thailand	175	0	-175	245	50	-195
South Vietnam & Cambodia	85	0	-85	120	50	-70
Brunei	10	220	+210	20	300	+280
Other	565	10	-555	790	50	-740
<b>Sub Total; Non-OPEC LDCs</b>	6,085	3,120	-2,965	9,020	8,260	-760
<b>China</b>	1,020	1,060	+40	3,750	5,000	+1,250
<b>Total</b>	7,105	4,180	-2,925	12,770	13,360	490

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